On the Contribution of China's Market-oriented Reforms to Economic Growth

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Abstract. This paper will analyze the reasons and environment of China's market-oriented reform, and argue the fundamental motivation and necessity of China's market-oriented reform. After that, this paper will cite relevant data and researches to analyze the internal logic of socialist marketization, explain the operation mode of China's market-oriented reform, and prove the effect of market-oriented reform. Finally, according to the reform process, this paper will divide the socialist marketization reform into three parts for analysis: the initial grass-roots social market economy experiment, the subsequent gradual deepening of the marketization reform of township and village enterprises, and the comprehensive socialist marketization reform and comprehensive deepening. This paper will follow the above steps to argue the reasons for the success of China's socialist market economy reform. Combined with the above argumentation process, this paper will come to the view that China's market-oriented reform has made an important contribution to China's economy.

Keywords: Market-oriented Reform; Economic Growth; China.

1. Introduction

Since 1978, China has carried out a reform and transition from a planned to a market-oriented system over a period of more than 30 years, known as the Reform and Opening Up. In 21st century, China's economy grew at an average annual rate of 10%. In 2010, China's economy surpassed Japan's to leap to the second place in the world, and its GDP (PPP) surpassed the America to leap to the first place in the world in 2017 (World Bank, 2023). Many people have different views on China's economic success, so what are the underlying reasons for China's economic takeoff? This paper asserts that a series of market-oriented reforms have played a very crucial role in boosting China's economic growth. In retrospect, China's reforms have been the most successful among almost all socialist countries and former socialist countries. But one thing is certain: China's reform is a special kind of market-oriented reform. China's unique social structure and the background of socialist development determined that China could not play out this series of economic development through purely Western theories. Judging from the results of China's current development, China has already walked out of a socialist market-oriented road of its own, characterized by local conditions and rapid economic development. Therefore, this paper argues that China's economic growth relies on the market-oriented reforms carried out in China, while the effects of market-oriented reforms and the particularities of China's market-oriented reforms determine the results of economic development.

2. Argument

China's market economy reform, as a way of allocating resources, can maximize the growth of productive forces while avoiding market risks as much as possible in the combination of the market system and socialism, and it is a system with developmental power. This paper argues that market-oriented reform should be the top priority of China's reform and opening-up. By relying on market-oriented reforms, China has been able to make a gradual transition from a rigid traditional socialist economic system to a socialist market economic system. It is important to realize that the transition from a rigid traditional socialist economic system is not easy. Take the Soviet Union's CMEA system, for example, which allowed the Soviet Union's satellite states to highly centralize material deployment and non-reimbursable aid. After the collapse of the CMI system, many former socialist countries were unable to effectively transition to a market economy. For example, North Korea
maintained a traditional socialist economic system after a famine, and Ukraine fell into poverty and domestic and foreign oligopolies after the failure of shock therapy reforms in the West. China also experienced a period of retrenchment and dislocation in the process of market-oriented reforms relative to other countries seeking reforms, but it did not fall into trouble. By now, China is now the second largest economic superpower in terms of nominal GDP after the United States (World Bank, 2023). In conclusion, China's market-oriented reforms have been successful. China's market-oriented reforms have been successful because they have been characterized by a series of development logics and features that are consistent with China's national conditions. China's socialist marketization during the reform and opening-up period was characterized by strong local social adaptability, high self-development efficiency, and huge and rapid economic development and market expansion, which were the decisive factors that allowed China's economy to break free from the constraints of the old system and move towards a soaring take-off. The above three features combined with each other in different development periods, effectively coordinated the social contradictions in the initial period, reduced the cost of reform, and provided a buffer for China's economic takeoff. With the deepening of market-oriented reforms, the above three features will gradually construct a social environment foundation and market suitable for China's economic success.

3. China's market-oriented reforms and their achievements

Before 1978, China's political and economic environment, shaped by socialist movements and a planned economy, wasn't conducive to market reforms (Renwei, 2012, pp 186). The transition required major changes in ownership, resource distribution, and even the political framework. These changes were risky and faced resistance due to ingrained ideologies and interests (Renwei, 2012, pp 188). However, reform became necessary due to the old system's inability to keep up with economic development and complex market demands. Chow (2018, pp 93) lists four motivators for reform: the unpopularity of the Cultural Revolution, the recognition of planned economy's flaws by officials, evidence of market economies' success in Asia, and a social readiness for market-oriented changes in China. Based on the special characteristics of China's market-oriented reforms and the urgency of the reforms, China's market-oriented reforms in practice need to cover a wide range of areas and form an operational system that integrates all aspects of Chinese society. China must undertake extensive market reforms that change land distribution, ownership and government-enterprise relations, and focus on localisation, self-adaptation and rapid economic growth, aiming for a smooth transition to a market-based economy. The complexity of the reforms means that they need to be gradual and adapted to the current political and social context. For this reason, understanding China's market reforms requires a study of their phased implementation.

The first stage in China's market-oriented reforms was to establish ideological reforms at the political and even social levels. These ideological reforms included issues related to the market economy, ownership, and other core ideological issues in China, and by reforming the ideology, China's market-oriented reforms achieved the problem of incompatibility between the market economy and the traditional socialist society at the early stage of the reforms, thus realizing the first major feature of the reforms, localization, and establishing the developmental soil for the subsequent reforms. Yingyi Qian points out in his article (2000, pp 153) that the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China (CPC), held in December 1978, was the beginning of the reform era, as it shifted the center of gravity of the CPC from "class struggle" to "economic development." At the same time, the meeting was preceded by an ideological debate between orthodox Marxism-Leninism and pragmatism, which ended with the victory of pragmatism, an event known in China as the first wave of ideological emancipation (Qian, 2000, pp 153).

Secondly, building on its ideological shift, China adopted market-focused reforms, implementing mixed ownership, contracting responsibility systems, and state-owned enterprise restructuring. These steps emphasized the market's central economic role, taking root particularly in rural locales where trial and error guided development. These efforts enhanced self-adjustment capabilities, boosting the
In the final stage, based on the results of the previous reforms, China's market-oriented reforms have entered the final stage, i.e., industry-wide reforms and economic liberalization for further improvement of the market-oriented economy. The original market-oriented reforms in China have already established the environment for the development of the market and the capacity for further development. However, in order to achieve comprehensive economic development, the core objective of this stage will be to further improve the market-oriented economy, carry out industry-wide reforms and open up the economy to realize the gradual replacement of backward economic industries and gain access to the world market, and to develop the final feature of high-speed expansion of the economy. After an initial phase, China had moved away from its old economic system, but still faced challenges such as insufficient competition and uneven distribution of resources. Despite the early reforms prior to 1993 that fostered development, a planned economy persists. China must accelerate market reforms to replace outdated industries and promote economic growth. An open-door policy was also crucial to extend economic integration from the local to the global level, to attract international capital and to synergise with the world economy. In 1992, China pushed for substantial policy changes to consolidate the advancement of the socialist market economy, encouraging foreign exchange reforms, the development of the securities market and the reduction of unprofitable enterprises, paving the way for an economic take-off (Qian, 2000, pp. 160-161).

After analyzing how market-oriented reforms have shaped China's growth, it becomes clear that these reforms were critical to China's rapid economic expansion, supporting the core hypothesis. China's GDP growth soared with an average annual rate of about 10% from 1978 to 2013, and by 2010, it surpassed Japan as the world's second-largest economy (Naughton, 2007, pp45). Structurally, China moved from a planned economy to one stimulated by industry and innovation. A notable surge in industrial output marked its embrace of industrialization and competitiveness globally. The industrial value-added averaging high growth rates across the decades—9.5% in the 1980s, 13.5% in the 1990s, and 11.5% in the 2000s, outpacing other low and middle-income countries (LO & LI, 2011, pp 62). These developments not only transformed China's economy but also support the effectiveness of its market reforms, confirming the study's assumptions.

4. China's market-oriented reform model and achievements in different stages

4.1 China's rural contract responsibility system

During the first phase of market-oriented reforms, China's economic reforms focused to a large extent on the transformation of the rural economy, a strategic move that laid the foundation for China's broader economic reforms. Prior to these reforms, China's economic productivity was largely dependent on agriculture. Given the special status of agriculture for China's economy, China was cautious about reforming the rural sector in the countryside, and the Government completed the construction of China's primary market by supporting small-scale, grass-roots agricultural reforms that developed on their own, realizing market-oriented reforms that began at the grass-roots level, were supported by the upper levels, and then strengthened at the grass-roots level.

In building a market at the grassroots level, the household contract responsibility system (HCR) has played a crucial role in breaking up collective ownership and opening up a new era of market economy development. In 1978, China began to implement the first household contract responsibility system, and because of the obvious efficiency advantages gained, this reform initiative was soon spread throughout the country. By the end of 1983, about 94.2% of the country's farm households were operating under the household contract responsibility system. Initially, the household contract responsibility system was a short-term contract system, with a contract period of only one to three
years, and after 1984, in order to incentivize farmers to cherish their land and invest in it, the contract period was extended to 15 years. In his research, Lin Yifu summarized the contribution of the household contract responsibility system to building the incentive structure of the economy. Lin pointed out that peasants in the traditional socialist era tended to choose slack because the old socialist economic system limited the distribution of peasants, resulting in a lack of incentives for peasants to further expand production (Lin, 1988, pp 414). Through the establishment of the household contract responsibility system, collective agriculture and planned economy were abolished and replaced by a grassroots, family-based market economy. This change in the economic system restructured the distributional system of production and gave peasants the proper incentives and opportunities to mobilize their productivity (Lin, 1988, pp 414). The market-oriented reform of the rural economy brought about a bottom-up reform of the Chinese economy, i.e., through the self-adjustment of the economic system at the grass-roots level, which provided a development model for the construction of the national market in the future. Agriculture and the countryside, as China's stable primary industries, have laid a solid foundation for China's sustained economic growth. On a per-household basis across the country, China went from 45.1% of family production teams participating HRC in 1981 to 94.7% of family production teams already participating in the household contract responsibility system in 1983 (Lin, 1988, pp 414).

On the other hand, Jean C. Oi in her article analyzes the construction of rural markets from the government's point of view in the context of China's market-oriented reforms, which began in the late 1970s with the gradual abandonment of the traditional socialist system of collective production in favor of stimulating growth through free economic development. This led to the emancipation and diversification of China's rural productivity, and free market development and new income opportunities spread the reform of the rural economic system (Jean, 1999, pp 616). Jean C. Oi emphasizes the role of the government in the reform of agricultural marketization. With the gradual establishment of the market system, rural marketization has faced problems such as land power, food security, and rural population loss, but overall the Chinese government has maintained its support for rural marketization. The Chinese government has continued to regulate markets, land, and food, and has strengthened marketization by encouraging private enterprises to join the agricultural market economy as reforms have progressed (Jean, 1999, pp 622-623). The results were dramatic, with net income of the rural population increasing from less than $150 in 1978 to reach about $2,000 in 1997, and real income per capita increasing by 63 percent between 1985 and 1997. By the mid-1980s, household-based production was able to become established nationwide, and agricultural output output grew by more than 20 percent per year (Jean, 1999, pp 616).

4.2 The establishment of township enterprises

The large-scale development of township and village enterprises was another important phase of China's reform policy in its transition to a market economy. In the early stages of marketization, China achieved an initial market-oriented construction through rural reforms. However, in the process of marketization in the countryside a series of marketization-agent series of problems arose. China's successful rural modernization ushered in a rapid development of the agricultural economy, and as a result the government continued to maintain the land and food policies established after the agricultural reform. This has resulted in a disconnect between the new realities in rural China and the government's expectations of the rural population. The continued growth of rural income sources has led to the liberalization of farmers' mobility, and non-agricultural employment continues to grow rapidly as the market economy is gradually being constructed. However, the government has stubbornly adhered to the family contract policy in constraining the gains of the agricultural economy, limiting farmers who are already capable of moving out to the land (Jean, 1990, pp 621). This disjointed impact actually illustrates that reforms that fail to self-adjust and adapt are bound to be problematic, and thus it becomes necessary to move out of the success of the agricultural economy and carry out further market-oriented reforms. In 1979, the Fourth Plenary Session of the Eleventh CCCPC adopted the Decision of the CCCPC on Several Issues Concerning the Acceleration of
Agricultural Development, which explicitly pointed out that "the social enterprises should have a great development" and introduced a series of policies. 1984, the Central Committee's Document No. 4 renamed the social enterprises as township and village enterprises, and clarified the significance of the promotion of the development of the township and village enterprises. The significance of promoting the development of township and village enterprises was made clear. In the eight years from 1984 to 1991, the total output value and total profits and taxes of township and village enterprises increased more than ten times or even dozens of times, but the growth rate fluctuated greatly. Township and village enterprises, as another major reform after the agricultural reform, provided a boost to China's further marketization and realized the prosperity of China's township and village economy. First of all, by supporting the township enterprises, the Chinese government could absorb the surplus labor generated after the success of the agricultural economy into the township enterprises. Gregory C. Chow pointed out in his article that the government took in the surplus agricultural labor by supporting the establishment of township enterprises in the countryside. This unemployed labor could be used for non-agricultural production, reducing the red tape required to set up and operate these institutions, increasing market activity and providing more labor necessary for China's economic growth (Chow, 2018, pp 98).

Based on the efficient transformation of agricultural labor, the market-oriented roots of township enterprises were strengthened, providing the basis for the subsequent economic take-off brought about by township enterprises. With the support of labor from agriculture, the production and expansion costs of township enterprises were reduced. At the same time, with government support and market liberalization brought about by previous reforms, the economic development of TVEs got rid of the rigid development mode and realized self-adjustment and high-speed expansion that state-owned enterprises could not do. Township and village enterprises were able to adjust their business to market conditions during the reforms. Optimize economic industries and carry out economic activities that consistently achieve high profits. With the addition of low-cost labor and free market, the economic development environment of township enterprises has become very good, and their economic development capacity has reached a surprisingly high level. Chow points out that although the ownership of township enterprises is not clearly unclear, the collective and private sector grows much faster than the state-owned sector. This means that China's economy can continue to grow at a rapid rate if the non-state sector alone remains vibrant (Chow, 2018, pp 99).

The strong economic capacity brought by township enterprises under the influence of market-oriented reforms. Based on the agricultural reform, township enterprises have absorbed the problems left behind by the agricultural reform and transformed them into the competitiveness of township enterprises in the market economy. This reflects self-adaptation in China's market-oriented reforms. On the other hand, the economic performance of township and village enterprises has far surpassed that of state-owned enterprises, which were the mainstay of China's economy before, and has quickly replaced them as the support of the national economy. This again reflects the high speed expansion of the marketized economy. All in all, the township and village enterprises have played the role of a carrier in China's market-oriented reforms, transforming some of the immature problems committed during the agricultural market-oriented reforms, and further laying the foundation for China's comprehensive marketization and building a more sound market economy.

4.3 Establishment of Special Economic Zones (SEZs)

In previous reforms, China had achieved the initial marketization of the Chinese economy through rural reforms, and had continued to improve the system of initial marketization by supporting township and village enterprises and integrating township and village enterprises and other unofficial sectors of the economy into the Chinese economic system. In the process of China's marketization reforms, China gained experience of a market economy and a functioning market environment, and the results of the reforms were successful. Therefore, based on the results of the previous reforms, China's market-oriented reforms have begun to move towards a new stage - the establishment of SEZ, the integration with the international market, and the realization of full market-oriented operation. If
this phase is successfully completed, China will have access to larger markets and more diversified investments. Based on the experience of the previous phase of reforms, China's economy will take off on the same scale as the pilot domestic reforms and on a much larger scale. In terms of results, China has succeeded. The establishment of special economic zones, such as Shenzhen, has played a key role in propelling China's economy into an era of unprecedented growth. As the vanguard of China's national and global market reforms, these special economic zones created an open economic environment in which domestic and international capital could invest and produce unimpeded. This radical economic policy inevitably stimulated domestic and international capital investment in favor of economic development. In 1980, China established four Special Economic Zones (SEZs), namely Shenzhen, Zhuhai, Shantou, and Xiamen. The Chinese government granted these zones lower tax rates and special institutions and policies with great economic autonomy. For example, the SEZs granted the power to approve foreign investment projects of up to US$30 million, which was undoubtedly huge when the rest of China still had reservations about market-oriented policies (Qian, 2000, pp 155). Although market-oriented reforms have been in place since 1978, the SEZs have suffered a certain change by being allowed to become China's first market economy supposedly dominated by private ownership. However, by keeping the SEZs outside the scope of central planning, the Chinese government has achieved relative independence of the SEZs from disrupting planned production and distribution in the mainland, and marketization can develop without internal influence (Qian, 2000, pp 155). In the special environment of the SARs, domestic and international capitals were given a piece of land that was extremely suitable for development, and because the SARs were backed by the interior, the international market thus realized its chief contact with the Chinese interior.

The above supports the establishment of China's special economic zones and their significant impact on China's economic reform process. The market-oriented reforms of the SEZ component simultaneously embodied three main features: the independent status of the zones reflected integration in line with China's national conditions, the gradual optimization of the economic environment of the zones in response to the entry of foreign capital reflected adaptability, and large-scale investment and output reflected expansion. Based on previous reforms, China has continued to deepen the process of marketization and has achieved considerable results. The establishment of independent and thoroughly open China's Special Economic Zones (SEZs) has not only promoted market-oriented reforms, but also laid the foundation for China's rapid economic development. The special policy and institutional environment of the special zones attracted a large amount of domestic and foreign capital, promoted opening up to the outside world and the integration of international markets, and realized more comprehensive market-oriented operation. The opening-up strategy of the SEZs has facilitated the great success of the Chinese market and the positive interaction between the domestic and foreign economies, contributing an important impetus to the economic take-off.

5. Conclusion

The reasons for China's economic take-off are manifold, and market-oriented economic reforms have encompassed as many elements as possible necessary for economic development. On the one hand, the promotion of market-oriented reforms has transformed China's economic system from a highly centralized planned economy to a more open and flexible market economy, greatly stimulating the vitality of enterprises and the competitiveness of the market. The market mechanisms has led to a more effective allocation of resources and improved economic efficiency and productivity. On the other hand, the market economy has promoted China's opening up to the outside world, attracted a large amount of foreign investment, and introduced advanced technology and management experience, which has played an important role in promoting China's industrial upgrading and technological progress. At the same time, China's market-oriented reforms have not been based on the Western model, but rather on the gradual establishment of a set of systems suited to China's national conditions through steady reforms adapted to the current Chinese social environment. In terms of steps and directions, China's accession to the World Trade Organization and the
marketization of its economy, which reached 73.8% in 2003, are all effective manifestations of China's market-oriented reforms. In short, the three main features of China's market-oriented reforms, namely, localization, adaptability and large-scale expansion, have always accompanied the development of the reforms and contributed to the development of the Chinese economy.

References


